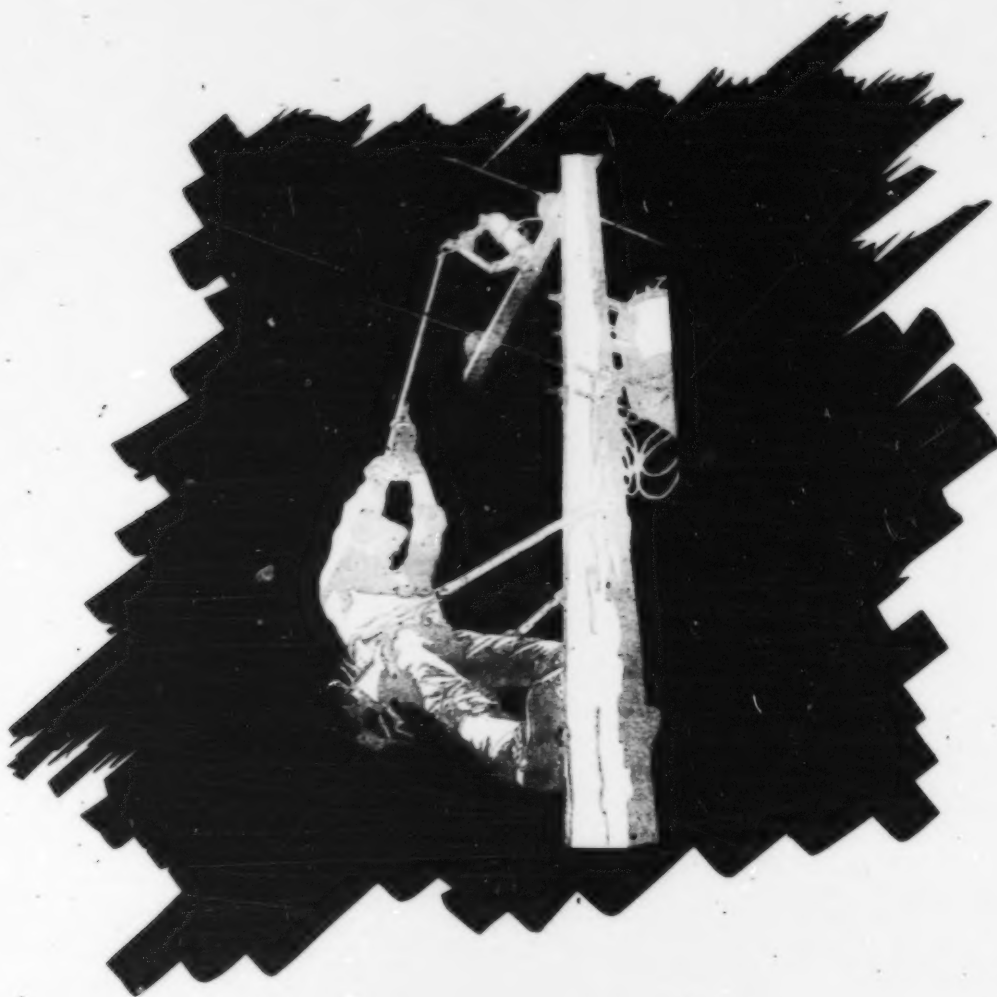
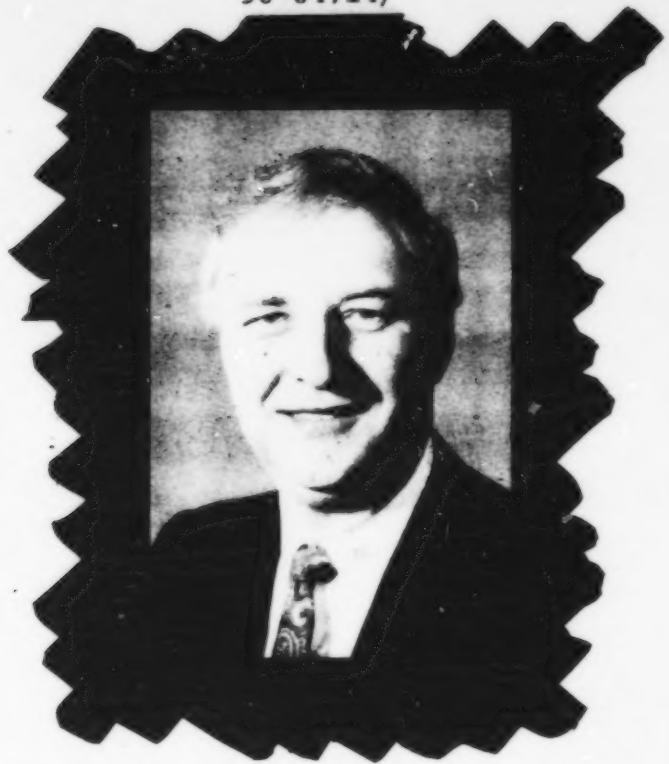




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ANNUAL REPORT

SaskPower



Letter of transmittal

Regina
March 1990

To Her Honour
Sylvia Fedoruk
Lieutenant Governor
of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of the Saskatchewan Power Corporation for the year ended December 31, 1989, including the financial statements for the year in the form approved by the Treasury Board, duly certified by the auditors of the corporation, all in accordance with the Power Corporation Act.

I have the honour to be, Madam,
Your obedient servant,

A handwritten signature in dark ink, appearing to read "G. McLeod". The signature is stylized with a large, sweeping "G" and a distinct "M".

George McLeod
Minister Responsible
Saskatchewan Power Corporation

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*M*essage from the Chairman of the Board

SaskPower's mandate is to provide electricity to the residents of Saskatchewan in an economical, safe, reliable, efficient and environmentally responsible manner. Following the sale of Saskatchewan Energy Corporation, SaskPower's employees have placed renewed emphasis on fulfilling this mandate.

Electricity and natural gas are competing forms of energy. This true competitive role was not possible when the two utilities were operating as one corporation. They have been operating separately since June 1988, and were formally and financially separated December 31, 1989.

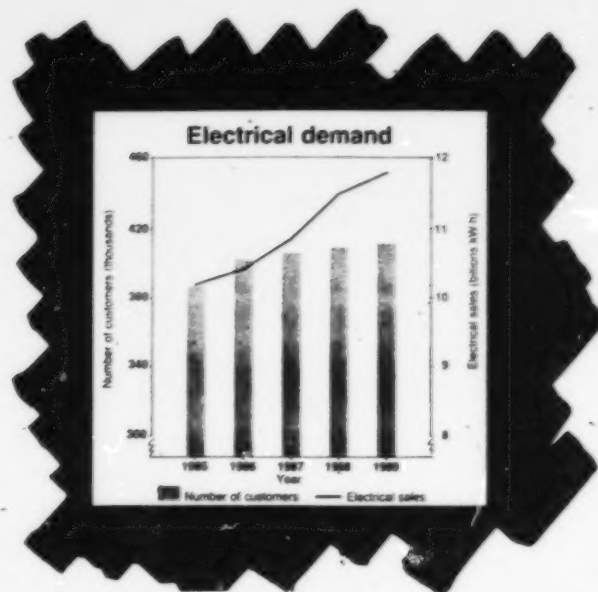
SaskPower's customers are benefitting already, through electrical rates for 1990 which have been held at 1989 levels. This became possible after the major reduction in the corporation's debt.

In 1989, SaskPower served more customers with more power than in the previous year. Customers increased by 2 218 to 410 683, and total consumption increased by 2.9 per cent. This increase is forecast to continue, particularly as a result of growth in the industrial sector. In addition to normal growth in existing industries, several major projects in Saskatchewan will require large amounts of power. These include the expanding pulp and paper industry, new irrigation projects, a new fertilizer plant, and the heavy oil upgrader at Lloydminster.

SaskPower predicts that it will need additional generation facilities by the year 2000. The Shand Power Station will help meet this increased demand with 300 megawatts in 1992 and a possible second 300 megawatts which could be put into service in about 1996.

In addition, SaskPower will continue to explore all other alternative sources of electricity and will place major emphasis on conservation. The corporation will also actively seek private sector co-generation opportunities.

The power requirements in northern Saskatchewan are predicted to grow at about double the rate in the south, as new mines and other industries are established. The Athabasca Transmission Line has already brought reliable, economical hydro power to a vast area of the north. The proposed line from the Island Falls Hydroelectric Station to Points North, near Wollaston Lake, would bring these benefits to another large area. Construction is slated to begin this spring.



Economical grid power will further stimulate economic development in the north. SaskPower's Northern Enterprise Fund is encouraging this diversification and the development of an entrepreneurial spirit in the north. In its first year of operation the fund provided three-quarters of a million dollars to new and existing businesses through loans, grants and guarantees.

SaskPower also stimulates the provincial economy through the Saskatchewan Supplier Development Program. In 1989, more than 88 per cent of the corporation's goods and services were purchased from Saskatchewan sources.

Since the program began in 1983, more than a dozen new businesses have been established in the province to manufacture products for SaskPower, and scores of existing businesses have expanded their product lines to meet SaskPower's needs. This activity creates new jobs for Saskatchewan people, and results in an improved, diversified provincial economy.

Taking this practice one step further, SaskPower is working with other western utilities to encourage western companies to produce products which were previously only available from central Canada.

As we start the new decade, SaskPower continues to adapt to meet new challenges, while maintaining excellent service to its customers. On behalf of the Board of Directors, I thank the executive and all employees for their efforts in the past year.

Donald Stankov, FCA
Chairman of the Board



*P*resident's report on operations

In 1989, SaskPower achieved all-time record earnings for the second consecutive year. After seven years of losses, we have recorded profits in the past three years.

Our net income in 1989 was \$436 million, including an extraordinary gain of \$226 million realized when we sold Saskatchewan Energy Corporation (SaskEnergy) to the Crown Investments Corporation of Saskatchewan.

In past years, the corporation's crippling debt has been our biggest concern. As a result of making a profit and through the sale of SaskEnergy, we reduced our overall debt load by \$.9 billion to \$1.5 billion.

SaskPower's revenue for 1989 was \$683 million, 6.9 per cent higher than the previous year. This increase came about through a 2.9 per cent increase in overall demand, and a rate increase averaging 3.9 per cent implemented at the beginning of the year.

Costs and expenses, including finance charges, totalled \$539 million, 5.6 per cent lower than in 1988. Reductions in finance charges more than offset slightly higher operating, maintenance and administration costs. Although we produced more electricity to meet demand, we were able to keep the cost of generation at about the same level as 1988, mainly due to better water volumes for generating hydroelectricity.

Finance charges of \$140 million were at their lowest levels since the early 1980s. We achieved this reduction through the buyback and early redemption of high interest rate debt, and by reduced borrowings made possible by our improved financial performance in the past three years. For 1989, only 20 cents from each revenue dollar was used to pay interest charges. In contrast, in 1988 the cost was 32 cents, and in 1986 we spent 42 cents of every dollar to pay interest charges.

Our capital expenditures totalled \$221 million, \$41 million higher than the previous year, primarily due to increased construction on the Shand Power Station. Record earnings enabled SaskPower to fund a larger portion of its capital expenditures from internal sources, placing less reliance on debt financing.

This dramatic improvement in our financial condition has enabled us to hold our rates at their current level for 1990. If our financial health continues, as we expect it will, we may not need to increase electrical rates in the next few years. It will mean more disposable income for our residential customers. It will help business and industry to be more competitive by holding down operating costs. The result will be an improved provincial economy, and all will benefit.

The PowerWise program is another way that we help our business, farm and residential customers control their energy costs through conservation. This program gives a higher profile to our ongoing promotion of the wise use of energy.

PowerWise will also help ensure that our generating capacity will meet future demands. We predict that if about half of the farm yard lights in the province are converted to high-pressure sodium vapor (HPSV) under the PowerWise program, it will reduce peak demand on the provincial grid by five megawatts. SaskPower is now in the final year of a three-year program to convert all streetlights to HPSV. This will reduce the annual streetlighting load from approximately 13 to 6.5 megawatts.

In addition to the daily job of providing a reliable and safe supply of power, we were involved in several major projects in 1989.

- We completed a Saskatchewan-Alberta tie line in September, allowing the exchange of electricity with Alberta. The completion of this tie-line was an historic achievement, the final link to interconnect the east and west sides of North America in a continental power grid.
- Buried cable was installed to serve 3 286 farms, replacing aging overhead lines. This work was part of our 20-year Rural Underground Development project.
- Work continued on the Shand Power Station, which will be producing 300 megawatts of much-needed power by July 1992. Shand will be the most environmentally protective coal-fired power station in Canada.



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In 1989, SaskPower formalized a comprehensive Environmental Policy Statement, which confirms that environmental responsibility has always been a priority. It provides a framework in which we can protect the environment while continuing to meet the province's electrical needs. We intend to make SaskPower the most environmentally responsible power utility in Canada.

We are currently testing new technology at our coal-burning Poplar River Power Station, and we expect to use this same technology at Shand to reduce sulphur dioxide emissions efficiently and economically.

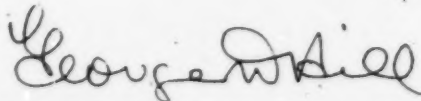
SaskPower operates the first provincial PCB storage site in Canada. This site, built in 1989 near Boundary Dam Power Station, will store PCBs securely until they can be safely destroyed.

Environmental concerns are just one area of SaskPower's social responsibility. We play a large role in communities throughout the province — in supporting many worthy causes, and through the volunteer efforts of our employees. For the past eight years we are proud to have sponsored, with the Saskatchewan Weekly Newspapers Association, the Junior Citizen of the Year Awards. This program recognizes young people for their contributions to school, church, family life, and community; for persistence in times of adversity; or for environmental protection and conservation efforts.

In the past few years SaskPower has introduced several programs to improve communication with our employees. In 1989, employees submitted almost 150 ideas to the Employee Suggestion Program to help SaskPower serve our customers better and operate more efficiently. A series of videos, the production of which started last year, shows employees our past accomplishments and sets out our plans for the future.

Safety has always been important at SaskPower, and we are constantly working to ensure the safety of our employees and our customers. In 1989, renewed emphasis was placed on this aspect of our operation through several programs including safety audits and public education.

All our employees can take pride in SaskPower's accomplishments in recent years. I would like to thank them for their dedication and support. I also thank the Chairman and the Board of Directors for their leadership through this most successful year.



George D. Hill, QC
President and Chief Executive Officer

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SaskPower executive

at December 31, 1989

George D. Hill, QC
President and Chief Executive Officer

Harvey Jim, CA
Senior Vice-President, Finance

Bob Lawrence, P.Eng.
Senior Vice-President, Operations

Ed Beechjnor
Vice-President, Marketing

Ken Birch, P. Eng.
Vice-President, Power Production

Lauren Carlson, P.Eng.
Vice-President, Major Projects

Tony Harras, P.Eng.
Vice-President, Planning

Nicholas Kaufman, QC
Vice-President, Law

Kevin Mahoney
Vice-President, Human Resources

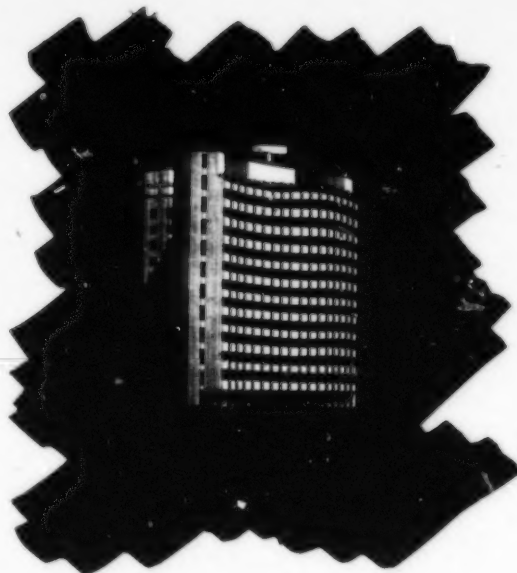
G. Keith Rever, P.Eng.
Vice-President, Transmission and Distribution

C. Larry Ruddell, CA
Vice-President and Controller

Robert Walker
Vice-President, Environment

Ron Bruce, CGA, CIA
Manager, Internal Audit

Vern Fowke, CA, was appointed Vice-President, Corporate Services and Communication, effective January 2, 1990.



SaskPower Board of Directors



(Standing, from left) Patricia Olynik, Wally Blaisdell, Ross Giles, Glenn Thorpe, Alfred Bechard, Barry Bridges.

(Seated, from left) Monty Manning, Don Stankov, Laura Smith.

Hon. George McLeod
Minister Responsible and Vice-
Chairman
Meadow Lake

Donald Stankov, FCA
Chairman
Executive Committee
President, Thyssen Mining
Construction of Canada Ltd.,
Regina

Alfred E. Bechard
Finance Committee
Farmer; Sedley

Wally Blaisdell, APR
Executive Committee, Finance
Committee
President, Markets Plus Inc.,
Regina

Barry D. Bridges, LL.B.
Executive Committee, Audit
Committee
Partner, McLellan, Cundall and
Bridges, Estevan

B. Ross Giles, CA
Executive Committee, Finance
Committee, Audit Committee
General Manager, Degelman
Industries, Ltd., Regina

Edward A. Laurence
Executive Committee, Finance
Committee
President, Laurence Investments
Ltd., Yorkton

Monty N. Manning
Audit Committee
President, Manning Mercury
Sales Ltd., North Battleford

Patricia Y. Olynik
Audit Committee
Homemaker, Moose Jaw

Laura Smith
Audit Committee
Farmer, Pathlow

Glenn R. Thorpe
Executive Committee, Finance
Committee
President, Tower Line
Contractors Ltd., Yorkton

*Financial
Section*

*R*eport of Management

Management is responsible for the integrity of the financial data reported by the Corporation. Fulfilling this responsibility requires the preparation and presentation of financial statements and other data in accordance with generally accepted accounting principles in Canada which are consistently applied, with any exceptions specifically described in the financial statements.

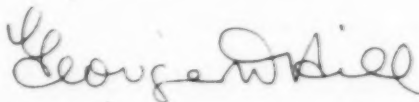
Management uses internal accounting controls, offers guidance through corporate-wide policies and procedures and exercises its best judgment in order that such statements reflect fairly the financial position, results of operations and changes in cash position.

In order to gather and control financial data, the Corporation has established accounting and reporting systems supported by internal controls and an internal audit program. In establishing systems of internal control, management weighs the cost of such systems against the benefits that it believes can be derived. Management believes that the existing internal controls provide reasonable assurance that assets are safeguarded and that the financial records are reliable for preparing financial statements and other data and maintaining accountability for assets.

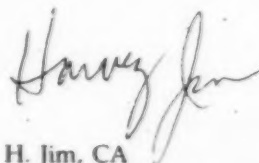
Ernst & Young, Chartered Accountants, have examined the Saskatchewan Power Corporation's statements of financial position as at December 31, 1989 and the related statements of income and retained earnings and changes in cash position for the year then ended. Their responsibility is to express an opinion on the fairness of management's financial statements. The Auditors' Report outlines the scope of their examination and their opinion.

In ensuring that management fulfills its responsibility for financial reporting and internal control, the Board of Directors is assisted by the Audit Committee whose members are outside directors. At regular meetings, the committee discusses audit and financial reporting matters with the representatives of management, the internal auditors and the external auditors. The Audit Committee has reviewed the financial statements with Ernst & Young and has submitted its report to the Board of Directors. The Board of Directors has reviewed the Annual Report in advance of its release and has approved its content and authorized its publication.

On behalf of Management,



G. D. Hill, QC
President and Chief Executive Officer



H. Jim, CA
Senior Vice-President, Finance

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have examined the statements of financial position of Saskatchewan Power Corporation as at December 31, 1989, and the statements of income and retained earnings, and changes in cash position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Effective December 31, 1989, the Corporation sold its investment in a wholly-owned subsidiary to its parent and recorded an extraordinary gain amounting to \$226 million. Had the investment been sold to a non-related party, the Corporation's treatment would be in accordance with generally accepted accounting principles. However, as the investment was sold to a related party, in our opinion the gain should have been recorded as an equity advance.

In our opinion, except for the inclusion in net income of the gain on sale of an investment to the Corporation's parent as referred to in the preceding paragraph, these financial statements present fairly the financial position of Saskatchewan Power Corporation as at December 31, 1989 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst + Young

Regina, Saskatchewan
February 9, 1990

Chartered Accountants

Statements of financial position

as at December 31, 1989

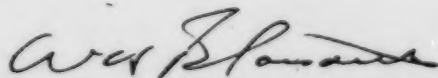
(in millions)

	<u>1989</u>	<u>1988</u>
		(Note 8)
Assets		
Property, plant and equipment		
Property, plant and equipment (Note 2)	\$2,836	\$2,673
Less accumulated depreciation and depletion.....	<u>785</u>	<u>705</u>
	2,051	1,968
Construction in progress.....	<u>179</u>	<u>135</u>
	<u>2,230</u>	<u>2,103</u>
 Current assets		
Cash and short-term investments	10	41
Accounts receivable and unbilled revenue	96	106
Inventories	<u>75</u>	<u>128</u>
	<u>181</u>	<u>275</u>
 Investment in and advances to subsidiary (Note 8)	<u>—</u>	<u>485</u>
Other assets and deferred costs (Note 8)	<u>243</u>	<u>234</u>
	<u>\$2,654</u>	<u>\$3,097</u>

Approved on behalf of the Board:



Director



Director

Liabilities and equity

1989 1988

(Note 8)

Long-term debt

Advances from the Province of Saskatchewan (Note 3)	\$1,327	\$2,083
Saskatchewan Power Corporation Savings Bonds (Note 4)	191	349
	1,518	2,432
Less equity in sinking funds (Note 3)	286	276
Long-term debt net of sinking funds	1,232	2,156
Less amounts due within one year (Note 3)	28	116
	<u>1,204</u>	<u>2,040</u>

Current liabilities

Accounts payable and accrued liabilities	163	146
Long-term debt due within one year	28	116
	<u>191</u>	<u>262</u>

Other liabilities and deferred income	<u>223</u>	<u>204</u>
---	------------	------------

Equity

Equity advances (Note 5)	600	—
Retained earnings	436	591
	<u>1,036</u>	<u>591</u>
	<u>\$2,654</u>	<u>\$3,097</u>

See accompanying notes

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Saskatchewan Power Corporation
Statements of income and retained earnings
 For the year ended December 31, 1989

(in millions)

	<u>1989</u>	<u>1988</u>
		(Note 8)
Revenue		
Sales to customers	<u>\$683</u>	<u>\$639</u>
Costs and expenses		
Cost of electricity	123	125
Operating, maintenance and administration	186	159
Depreciation and depletion	90	83
	<u>399</u>	<u>367</u>
Income from operations before finance charges, earnings from discontinued operations and extraordinary items	284	272
Finance charges (Note 6)	<u>140</u>	<u>204</u>
Income before earnings from discontinued operations and extraordinary items	144	68
Earnings from discontinued operations (Note 8)	66	54
Extraordinary items (Note 7)	<u>226</u>	<u>170</u>
Net income	436	292
Retained earnings, beginning of year	<u>591</u>	<u>299</u>
	1,027	591
Dividend	<u>(591)</u>	<u>—</u>
Retained earnings, end of year	<u>\$436</u>	<u>\$591</u>

See accompanying notes

Statements of changes in cash position

For the year ended December 31, 1989

(in millions)

	<u>1989</u>	<u>1988</u>
		(Note 8)
Cash from operations available for debt servicing and capital expenditures (Note 9)	<u>\$413</u>	<u>\$355</u>
Cash used for debt servicing		
Gross interest payments	266	283
Principal repayments	126	129
Sinking fund installments	12	13
	<u>404</u>	<u>425</u>
Net cash available (deficiency) for capital expenditures	<u>9</u>	<u>(70)</u>
Cash used for capital expenditures		
Additions to property, plant and equipment	221	180
Less interest capitalized	(10)	(8)
Other	3	(17)
	<u>214</u>	<u>155</u>
Net cash deficiency before financing	<u>(205)</u>	<u>(225)</u>
Cash from financing and other sources (Note 10)	<u>174</u>	<u>226</u>
Increase (decrease) in cash	<u>(31)</u>	<u>1</u>
Cash position, beginning of year	<u>41</u>	<u>40</u>
Cash position, end of year	<u>\$ 10</u>	<u>\$ 41</u>
Cash position at end of year consists of:		
Cash and short-term deposits	\$ 10	\$ 47
Bank indebtedness	—	(6)
	<u>\$ 10</u>	<u>\$ 41</u>

See accompanying notes

 Saskatchewan Power Corporation
Notes to financial statements
December 31, 1989

The Corporation was established pursuant to The Power Corporation Act, passed on April 8, 1950. In accordance with the provisions of this Act, the Corporation's main functions include the generation, purchase, transmission, distribution and sale of electrical energy.

1. Accounting policies

The Corporation's accounting policies are in accordance with generally accepted accounting principles and conform in all material respects with International Accounting Standards, except that there is no provision for income taxes as they are not levied on earnings of Crown Corporations. The following policies are considered to be significant:

(a) Investment in subsidiary

The financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Saskatchewan Energy Corporation, accounted for on the equity method (see Note 8).

(b) Property, plant and equipment

Property, plant and equipment are recorded at cost and include direct material, interest, labor and overhead costs.

The costs of renewals and enhancements which extend the economic useful life of assets are capitalized. On partial disposal of an asset, the cost less the proceeds of sale is charged to accumulated depreciation. When a complete asset is retired, a gain or loss is recognized in the statement of income.

Costs associated with modifications to property, plant and equipment as a result of environmental concerns are capitalized as part of the cost of plant in service and are depreciated over the remaining useful life of the related asset.

Maintenance and repair costs are expensed as incurred.

Depreciation is calculated on a straight-line basis over the estimated service life of the related asset. Depletion of coal properties is calculated using the unit of production method based on estimated proven reserves.

(c) Capitalization of interest

Interest associated with major capital and development projects is capitalized during the construction period at the Corporation's weighted average interest rate of long-term borrowings in the current year.

(d) Inventories

Stores inventories, consisting of maintenance material, supplies and plant repair parts, are recorded at average cost. Coal and other fuel are recorded at cost on a first-in, first-out basis.

(e) Contributions in aid of construction

Contributions in aid of construction consist of funds received relating to new service connections. These contributions are classified as deferred income and are amortized over the estimated service life of the related asset.

(f) Revenue recognition

Revenue is recognized when electrical services are delivered to customers. The estimate of services rendered but not billed is included in unbilled revenue.

(g) Foreign currency translation

Transactions denominated in a currency other than Canadian dollars are translated to Canadian dollars by applying exchange rates in effect at the transaction date. At year end, monetary assets and liabilities denominated in a foreign currency are adjusted using the exchange rate at that date. Any resulting exchange gains and losses are included in the statement of income in the current period. Unrealized exchange gains and losses on long-term monetary items are deferred and amortized on a straight-line basis over the remaining life of the asset or liability.

(h) Amortization of discount and issue expenses

Debt discount and issue expenses are amortized on a straight-line basis over the term of the respective debt issue.

(i) Pension plans

The Corporation provides for pension plans for substantially all employees. One of the plans is a money purchase plan and the amount to be contributed is determined by the Superannuation (Supplementary Provisions) Act. The other plan is a defined benefit plan and the contributions are based on actuarial valuations.

The cost of pension benefits in the defined benefit plan is determined using the projected benefit method prorated on service and is charged to expense as services are rendered. This cost reflects best estimates of the expected investment yields, salary adjustments, mortality of members, terminations and the ages at which members will retire. Adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized over the estimated average remaining service lives of the employees.

Notes to financial statements (continued)

2. Property, plant and equipment (in millions)

	<u>Cost</u>	<u>Accumulated Depreciation and Depletion</u>	<u>Net Book Value</u>	
			<u>1989</u>	<u>1988</u>
Generation Plant				
Thermal	\$ 724	\$268	\$ 456	\$ 472
Hydro	752	109	643	648
Other	24	10	14	14
Transmission	380	108	272	226
Distribution	788	220	568	500
Other	168	70	98	108
	<u>\$2,836</u>	<u>\$785</u>	<u>\$2,051</u>	<u>\$1,968</u>
			<u>1989</u>	<u>1988</u>
Composite depreciation and depletion rates			3.24%	3.21%
Interest capitalized				
Amount included in property, plant and equipment			<u>\$ 269</u>	<u>\$ 259</u>

3. Advances from the Province of Saskatchewan (in millions)

	<u>1989</u>	<u>1988</u>
Canadian Dollar		
Issues with interest rates of 7.75 to 13.00, weighted interest rate of 10.63%	\$ 513	\$ 850
Canadian Dollar		
Issues callable upon six-months notice with interest rates of 9.26 to 14.06, weighted interest rate of 11.94%	221	622
U.S. Dollar		
Issues with interest rates of 4.875 to 16.375, weighted interest rate of 12.85%, par value of \$512 million U.S.	<u>593</u>	<u>611</u>
	<u>\$1,327</u>	<u>\$2,083</u>

Maturities of the advances for the next five years all relate to the U.S. Dollar Issues and are \$4 million in 1990, \$174 million in 1991, \$169 million in 1992 and no maturities in 1993 and 1994.

Certain advances from the Province require the establishment of sinking funds which, upon maturity of the respective advances, are applied to the principal amounts to be repaid. The equity in sinking funds amounted to \$286 million at December 31, 1989 (\$276 million at December 31, 1988). Sinking fund installments payable for the next five years are \$8 million per year.

The current portion of long-term debt consists of:

	<u>1989</u>	<u>1988</u>
Advances from the Province of Saskatchewan, net of sinking fund installments and applications.....	\$ 4	\$ 8
Saskatchewan Power Corporation Savings Bonds (Note 4).....	24	108
	<u>\$28</u>	<u>\$116</u>

4. Saskatchewan Power Corporation Savings Bonds

Saskatchewan Power Corporation Savings Bonds issued and outstanding are as follows (in millions):

<u>Series</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Issue Interest Rate</u>	<u>Amount Outstanding</u>	
				<u>1989</u>	<u>1988</u>
III	July 4, 1986	July 6, 1989	8.75%	\$ —	\$ 25
IV	July 6, 1987	July 6, 1990	8.50%	18	28
V	July 6, 1988	July 6, 1991	9.25%	76	169
VE	July 6, 1988	July 6, 1991	9.25%	97	127
				<u>\$191</u>	<u>\$349</u>

The interest rates can be increased upon the approval of the Lieutenant Governor in Council. Effective January 6, 1989, the interest rate on Series V bonds was increased to 10.5% and further increased to 11.0% effective July 6, 1989. The interest rate on Series VE bonds was increased to 10.5% effective January 6, 1989. The Bonds are subject to early redemption semi-annually until maturity at the option of the bondholder. Bonds redeemed January 6, 1990 in the amount of \$8 million (\$86 million January 6, 1989) are classified as long-term debt due within one year.

The Series VE bonds issued in 1988 are exchangeable, at the option of the holder, at any time prior to maturity for 9.5 common shares of Saskoil per \$100 principal amount of Exchangeable Bond. The Saskoil shares were received in 1988 as part of the consideration on the sale to Saskoil of the Corporation's petroleum and natural gas properties (Note 7). Holders exercising the exchange privilege before July 6, 1989 received one additional common share per \$100 principal amount. At December 31, 1989, bonds in the amount of \$25 million have been exchanged for shares.

Notes to financial statements (continued)

5. Equity advances

In 1989, the Corporation received an equity advance from its parent corporation in the amount of \$600 million.

6. Finance charges (in millions)

	<u>1989</u>	<u>1988</u>
Gross interest expense	<u>\$266</u>	<u>\$283</u>
Less amounts capitalized and charged to subsidiary	<u>62</u>	<u>32</u>
	<u>204</u>	<u>251</u>
Amortization of:		
Foreign exchange	(10)	(7)
Debt discount and issue expense	3	4
	<u>(7)</u>	<u>(3)</u>
	<u>197</u>	<u>248</u>
Less:		
Sinking fund earnings	34	34
Interest income	17	16
Gain on sale of Saskoil warrants and shares	10	—
Other	<u>(4)</u>	<u>(6)</u>
	<u>57</u>	<u>44</u>
Finance charges, net	<u>\$140</u>	<u>\$204</u>
Interest rate used in capitalization	<u>9.81%</u>	<u>9.41%</u>

7. Extraordinary items (in millions)

In 1989, the extraordinary item of \$226 million was the gain on sale of the investment in Saskatchewan Energy Corporation (Note 8).

In 1988, the Corporation sold its interests in its petroleum and natural gas properties and related equipment to Saskatchewan Oil and Gas Corporation (Saskoil). The gain on sale is included in extraordinary items for 1988, as follows:

Gain on sale of gas properties and equipment to Saskatchewan Oil and Gas Corporation	\$172
Settlement of litigation	(2)
	<u>\$170</u>

8. Sale of investment in Saskatchewan Energy Corporation

Effective December 31, 1989, the Corporation sold its investment in its wholly-owned subsidiary, Saskatchewan Energy Corporation, to Crown Investments Corporation of Saskatchewan. The proceeds of sale amounted to \$725 million, which is the estimated fair market value of the assets of the subsidiary at June 1, 1988 and its earnings since June 1, 1988 (the date of commencement of operations). The Corporation also sold interest-bearing notes from Saskatchewan Energy Corporation to Crown Investments Corporation at the face amount of \$122 million.

In consideration for the sale of its interests in Saskatchewan Energy Corporation, Crown Investments Corporation assumed certain advances from the Province of Saskatchewan in the amount of \$775 million and issued a non-interest bearing promissory note in the amount of \$72 million. This note is included with other assets and deferred costs. The unamortized debt discount and issue expense of \$15 million relating to the advances from the Province assumed by Crown Investments Corporation has been included in extraordinary items.

The financial statements for 1988 have been restated to account for the discontinued operations on the equity method. The results of the discontinued operations which include the results of Saskatchewan Energy Corporation since June 1, 1988 are as follows (in millions):

	<u>1989</u>	<u>1988</u>
Revenue	\$320	\$298
Costs and expenses	<u>254</u>	<u>244</u>
Net income	<u>\$ 66</u>	<u>\$ 54</u>

Following are the major transactions between Saskatchewan Power Corporation and the discontinued operations (in millions):

	<u>1989</u>	<u>1988</u>
Sales of electricity	\$ 1	\$ 1
Gas costs from Saskatchewan Energy	17	18
Interest charged on the assets transferred at June 1, 1988 ..	52	24
Other charges to Saskatchewan Energy	21	12

Notes to financial statements (continued)

9. Cash from operations (in millions)

The components of cash from operations are as follows (1988 restated):

	<u>1989</u>	<u>1988</u>
Income from operations before finance charges	\$284	\$272
Interest income.....	17	16
Charges to operations not requiring an outlay of cash:		
Depreciation and depletion.....	90	83
Other	(10)	(5)
	<u>381</u>	<u>366</u>
Net change in non-cash working capital:		
Accounts receivable and unbilled revenue.....	10	(32)
Inventories.....	5	(1)
Accounts payable and accrued liabilities	17	22
	<u>32</u>	<u>(11)</u>
Cash from operations	<u>\$413</u>	<u>\$355</u>

10. Cash from financing and other sources (in millions)

The components of cash from financing and other sources are as follows (1988 restated):

	<u>1989</u>	<u>1988</u>
Advances from the Province	\$ 92	\$ 74
Saskatchewan Power Savings Bonds	—	295
Proceeds on sale of Saskatchewan Energy (Note 8)	653	—
Proceeds on sale of notes (Note 8).....	122	—
Equity advance	600	—
Sale of Saskoil shares and warrants.....	34	—
Cash proceeds from sale to Saskoil	—	122
Advances from (to) subsidiary	52	(47)
Other	13	20
	<u>1,566</u>	<u>464</u>
Less: Early repayment of advances and redemptions of Saskatchewan Power Savings Bonds.....	801	238
Dividend	591	—
	<u>1,392</u>	<u>238</u>
Cash from financing and other sources	<u>\$ 174</u>	<u>\$226</u>

11. Commitments and contingencies

- (a) At December 31, 1989, the Corporation was committed in the amount of approximately \$408 million for construction materials, equipment, forward exchange and other financial contracts, and on contracts and services not completed at that time. At 1989 prices, the Corporation had forward commitments of \$1,912 million extending up to 35 years for coal contracted for future minimum deliveries.
- (b) The Corporation is contingently liable as endorser of certain promissory notes due 2003, arising from the sale of a dragline. In addition, the Corporation is contingently liable for lease payments on certain leased mining equipment, which was assumed by the purchaser of a mining operation. The lease expires in 2005. The total amount of the contingencies is \$95 million.

12. Pension plan

The pension fund assets in 1989 amounted to \$378 million, which approximated the actuarially-determined present value of accrued pension benefits.

13. Related party transactions

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown-controlled departments, agencies and corporations with which the Corporation is related.

Account balances resulting from these transactions are included in the statements of financial position and are settled in normal trade terms.

Other amounts due to and from related parties and the terms of settlement are described separately in the financial statements and the notes thereto.

Electric operations ten-year financial summary

(in millions)

Statements of income

	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980
Revenue	\$683	\$639	\$565	\$510	\$471	\$432	\$376	\$333	\$288	\$248
Costs and expenses										
Electricity	123	125	97	86	108	89	85	76	60	60
Operating, maintenance and administration	186	159	150	158	159	149	140	132	128	107
Depreciation	90	85	79	70	58	57	50	46	39	31
	<u>399</u>	<u>367</u>	<u>326</u>	<u>314</u>	<u>325</u>	<u>295</u>	<u>275</u>	<u>254</u>	<u>227</u>	<u>198</u>
Income before finance charges	284	272	239	196	146	137	101	79	61	50
Finance charges	140	204	216	214	167	165	128	108	82	52
Income (loss) from continuing operations	<u>\$144</u>	<u>\$ 68</u>	<u>\$ 23</u>	<u>\$ (18)</u>	<u>\$ (21)</u>	<u>\$ (28)</u>	<u>\$ (27)</u>	<u>\$ (29)</u>	<u>\$ (21)</u>	<u>\$ (2)</u>

Financial summary

	1989	1988*	1987	1986	1985	1984	1983	1982	1981	1980
Property, plant & equipment										
Property, plant & equipment in service	\$2,836	\$2,673	\$2,541	\$2,449	\$1,955	\$1,691	\$1,686	\$1,415	\$1,362	\$1,018
Construction in progress	179	135	78	48	366	408	320	323	182	303
Property, plant & equipment, gross	3,015	2,808	2,619	2,497	2,321	2,099	2,006	1,738	1,544	1,321
Accumulated depreciation	(785)	(705)	(635)	(562)	(505)	(456)	(419)	(384)	(347)	(312)
Property, plant & equipment, net	<u>\$2,230</u>	<u>\$2,103</u>	<u>\$1,984</u>	<u>\$1,935</u>	<u>\$1,816</u>	<u>\$1,643</u>	<u>\$1,587</u>	<u>\$1,354</u>	<u>\$1,197</u>	<u>\$1,009</u>
Growth over prior year (%)	6.04	6.00	2.53	6.55	10.53	3.53	17.21	13.12	18.63	11.74
Capital expenditures (\$)	221	180	128	189	231	232	294	231	226	137
Sources & uses of cash										
Cash from operations	\$ 413	\$ 355	\$ 290	\$ 348	\$ 230	\$ 82	\$ 172	\$ 133	\$ 111	\$ 55
Debt servicing	(404)	(425)	(325)	(432)	(246)	(238)	(212)	(164)	(168)	(90)
	9	(70)	(35)	(84)	(16)	(156)	(40)	(31)	(57)	(35)
Capital expenditures, net of interest capitalized	(214)	(155)	(136)	(183)	(188)	(197)	(259)	(207)	(208)	(118)
Financing	174	226	172	267	258	252	293	387	243	58
Increase (decrease) in cash	<u>\$ (31)</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 54</u>	<u>\$ (101)</u>	<u>\$ (6)</u>	<u>\$ 149</u>	<u>\$ (22)</u>	<u>\$ (95)</u>
Finance charges as a per cent of revenue (%)	20.50	31.92	38.23	41.96	35.46	38.19	34.04	32.43	28.47	20.97

*Restated to exclude discontinued operations